Tourism Management 67 (2018) 180–190

Contents lists available at ScienceDirect

Tourism Management

journal homepage: www.elsevier.com/locate/tourman

Online review response strategy and its effects on competitive performance

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HIGHLIGHTS

- The quantity of managerial responses positively impacts hotels performance.
- Managerial responses have a stronger positive impact on negative reviews.
- Having a certain level of responses is more effective than not responding.
- A selective response strategy is more effective than responding to all reviews.

ARTICLE INFO

Article history:
Received 26 July 2017
Received in revised form
18 January 2018
Accepted 20 January 2018

Keywords:
Online review
Managerial response
Quantity of response
Quality of response
Response strategy

ABSTRACT

Online reviews have transformed consumer behavior in information searching and sharing. Their growing popularity has enabled new differentiation strategies for lodging operators. More subtly, online review systems have forced hotel managers to compete through the effective use of information systems that they have not created or purchased. Therefore, managers in the tourism industry must adapt to the widespread use of external systems, incorporate them in their strategy and evaluate their effects.

This study focuses on the impact of managements' quantity and quality of usage of online review systems. Our findings show that managerial response quantity positively impacts hotels' competitive performance. Moreover, responses have a stronger positive impact when they address extreme reviews. We evaluate four response strategies and find significant performance differences among them. Our finding demonstrates the importance of proficiency in external information systems use because performance differs by "how" the system is used – not only "how much."

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1. Introduction

Travel is one of the most expensive items purchased regularly by households, and it represents a significant proportion of individual's annual budget. Travel budgets also represent a significant expense for many corporations. Tourism and travel products (e.g., hotel rooms) are experience goods (Nelson, 1970) where customers must purchase and utilize the service to ascertain its quality. That is, unlike search goods which the customers have an opportunity to evaluate before purchasing, hotel accommodation has always been impossible to "test" a priori. Experience goods are therefore characterized by a disproportionate importance of reputation which is used as a proxy for gauging quality prior to consumption (Nelson, 1970). The importance of reputation, as conveyed for example by brands, is widely recognized in the hotel industry and it has been one of the historic drivers of industry consolidation (Prasad & Dev, 2000).

While the nature of travel services as experience goods has not changed, the continuing evolution of Information Technology (IT), and the widespread adoption of the Internet, contributed to virtualizing the information gathering process (Overby, 2008). For example, the Internet has enabled the virtualization of tourism information search with dramatic changes in consumers' behavior (Buhalis & Law, 2008) and the strategic balance of power between operators and intermediaries. The success of alternative

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https://doi.org/10.1016/j.tourman.2018.01.014
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accommodation arrangements, such as AirBnB, is arguably enabled by the digitalization of trust and reputation enabled by the IT. Social media and opinion platforms today are mainstream communications media in the tourism industry (Schmidt, Cantallops, & dos Santos, 2008). Having virtualized the information search process, IT shifted the source of hotel information from traditional intermediaries and operators, to two categories of internet-based entities: (1) online travel agencies (e.g., Expedia) and, (2) online review specialists (e.g., TripAdvisor, Oyster). Online reviews are evaluative statements, written by actual or potential customers, available to end user and institutions via the Internet (Stauss, 2000). They represent a critical information resource enabling prospective hotel guests to leverage the experience of other travelers in their selection process (Levy, Duan & Boo, 2013).

Recent industry data indicates that about 53% of travelers would not make a reservation until they read hotel online reviews and 77% of prospective guests report reading reviews before they choose a hotel either “always” or “usually” (TripAdvisor, 2014). The academic literature shows that positive online hotel reviews enhance customers’ trust in the hotel (Sparks & Browning, 2011) resulting in improved financial performance (Öğüt & Onur Tas, 2012).

One critical, yet understudied, characteristic of modern online review systems is the ability of operators to respond to guest reviews. This feature of online review platforms enables managers to resolve customers’ complaints. More importantly, it allows hotel operators to join the conversation and engage potential customers in a long-term discussion about their products or services by responding publicly to online comments (Park & Allen, 2013). Thus, online review systems are socio-technical artefacts (Silver & Markus, 2013) that mediate the interaction between the firm and its customers. The ability to respond affords the hotel managers an opportunity to further enhance the hotel performance by better utilizing this online communication channel. Yet, despite the potential value offered by response features, there is little research focusing on response management strategies in the hotel industry (Abramova, Shavanova, Fuhrer, Krasnova, & Buxmann, 2015). In this paper, we focus on the question of how profit-maximizing hotel operators should respond to online reviews.

Practicing managers have long intuited that partaking in the conversation is important. An early industry study by TripAdvisor shows that responding to online reviews improves customers' likelihood of recommending a hotel by more than 20% (Barsky & Frame, 2009). However, the number and the context of a response may increase or decrease hotels' performance thus, hotel managers need a well-defined strategy on when and how to respond. Surprisingly, there is a lack of research that rigorously and empirically classifies and evaluates response management strategies (Liu, Schuckert, & Law, 2015). We pursue the question by conceptualizing online reviews platforms as socio-technical artefacts that virtualize the communication process between the customers and the hotels. We categorize and analyze firms’ online review response strategies in terms of the quantity and quality of online review system use. Our results extend previous work on the effect of review valence and review quantity on hotel performance. More importantly, ours is the first study to measure the competitive performance effect of managerial responses to online reviews. Our contribution is in the empirical demonstration that hotels benefit from both the quantity and quality of online review systems use. Specifically, we find that those hotels that embrace externally developed online review systems to respond to customer comments perform better than their competitors, and this effect is stronger when the hotel uses the system to address negative comments. Finally, we also demonstrate the competitive effect of four different classes of response strategies and their implications for hotel managers.

The paper is organized as follows. In the next section, we introduce our theoretical framework and discuss previous literature on online reviews and management responsiveness. We then introduce the context, methods and data used in our work. We conclude by reporting and discussing our findings.

2. Theoretical framework

2.1. Online reviews

The context of this study is the lodging industry, in which travelers make decisions based on their own past experience with the hotel or the brand. Increasingly, over the last decade, travelers leverage online reviews and experiences shared by other travelers over the Internet. The literature shows that online consumer reviews have a significant influence on travel information search and product sales (Duan, Gu, & Whinston, 2008; Mauri & Minazzi, 2013; Xiang & Gretzel, 2010). For example, online hotel reviews increase customers' awareness of the hotels and enhance their consideration in the customers' mind (Vermeulen & Seegers, 2009). Further, positive online hotel reviews can enhance customers' trust (Sparks & Browning, 2011) and, as a consequence, increase the hotel's financial performance (Öğüt & Onur Tas, 2012). High review scores convey: both product quality and social validation (Cialdini, 2000). The literature has reached consensus on the finding that higher review scores positively affect demand for hotel and, consequently, increase sales and revenue (e.g., Chevalier & Mayzlin, 2006; Phillips, Barnes, Zigan, & Schegg, 2017; Sparks & Browning, 2011), while negative reviews are known to impact customers' attitudes negatively (e.g. Lee, Park, & Han, 2008). As customers become more discerning, they use online reviews to better specify their service requirements and uncover the best value propositions in the market. As a result, it is common for people to read comments about other's experiences to reduce uncertainly before they make a purchase (Archak, Ghose, & Ipeirotis, 2011; Zheng, Agarwal, & Lucas, 2011). Prior research has also established that the total number of reviews a product or service receives leads to higher sales and improved brand reputation (e.g., Amblee & Bui, 2011). While not the focus of our work, we seek to establish that the same relationships hold in our context. Thus, we hypothesize:

H1a. Cumulative review scores are positively related to the firm's competitive performance.

H1b. The total number of the online reviews positively impacts the firm's competitive performance.

2.2. Firm responsiveness

An online review system is an IT-enabled customer service system (Lui & Piccoli, 2016) that, because of the reach capability of information technology (Overby, 2008), has the characteristics of a broadcast communication medium. The firm can utilize such a communication channel to collect intelligence and to respond to consumers' comments. Managerial response is one of the functionalities of the online review systems used for the support of customer relationship, reputation and brand management (van Noort & Willemsen, 2001; Baka 2016). We define managerial response as an answer posted on behalf of a tourism operator by its employees, addressing a specific review contributed by a guest. Traditionally, customers interact with a few frontline employees during the service encounter, and typically develop an overall image of the emotions that members of a given organization will display (Sutton & Rafaeli, 1988). Given that managerial response is publicly available online and will be viewed by potential customers,

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